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SUBJECT: Brazil's National Broadband Plan

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¶1. (SBU) Summary: Brazil's Minister of Communications (MOC), Helio Costa, unveiled Brazil's national broadband plan (NBP) aimed at addressing Brazil's soaring broadband usage demand (reftel) on November 24. The proposal, entitled "A national plan for broadband - Brazil at high speed," lays out MOC goals, to be accomplished by 2014 when Brazil hosts the World Cup, of increasing individual access to fixed broadband service in Brazil to 30 million people, providing 60 million users with mobile broadband access, and connecting all government agencies, public schools, public health facilities, public libraries, and federal state and local law enforcement agencies to the plan's expanded broadband network. The plan also calls for the construction of 100 thousand new community telecenters (reftel) with broadband access designed to reach the rural areas of Brazil. In describing the NBP as essential to sustaining Brazil's economic growth, increasing its economic global competitiveness, and enhancing the social welfare of its citizens, the plan envisions a concession model that utilizes existing telephone fiber optic networks, and calls for government investment of U.S. \$ 26.49 billion and \$ 49.01 billion in private investment. To stimulate private investment, the plan proposes IT related tax breaks, favorable financing terms through Brazil's National Development Bank (BNDES), and regulatory reform. President Lula is currently evaluating MOC's NBP proposal along with alternative NBP option from Brazil's Ministry of Planning that recommends the use of private energy companies' power lines as the NBP network. GOB has not yet reached consensus regarding how the Plan will be funded. President Lula has said that he will be meeting with MOC, the Ministries of Finance, Planning, and Energy within the next two weeks to decide these two fundamental questions of how broadband will be delivered (phone lines or electricity lines) and how the expansion will be funded. However, Mission believes these questions will not be resolved before the end of the year. End Summary.

PLAN'S STRATEGIC GOALS/APPROACH

¶2. (SBU) Communications Minister Costa highlighted that expanding Brazil's broadband infrastructure would forward GOB strategic goals including universal access, greater governmental operational efficiency, improved public interface experience with government services, enhanced development of Brazil's telecommunications

networks, contribution to the industrial and technological development of Brazil's ICT sector, increased competitiveness of Brazilian small and medium enterprises in other sectors as well as companies in the ICT sector thereby adding jobs, and GDP growth. Costa stated that without the NBP, Brazil would reach about 21 million broadband users by the end of 2014, representing approximately 31.2 accesses per 100 households, a number lower than the 37 per 100 households found in the analysis of the broadband infrastructures of Argentina, Chile, China, Mexico and Turkey. In contrast, Costa argued that implementing the proposed Plan could result in Brazil achieving an access ratio of 50 per 100 households. The key to achieving this growth, according to Costa, is to target rural area broadband usage where geographical isolation and lower income levels have contributed to lower broadband usage (Note: The Brazilian State of Sao Paulo accounts for 40% of Brazil's broadband use and is considered a saturated broadband market. End Note). It is also critical that Brazil stimulate innovation, efficiency and competition aimed at expanding coverage and reducing consumer retail costs to USD30/month, a level MOC believes is critical in attracting middle to lower income consumers.

NBP FUNDING

13. (SBU) Sources of government funding for the plan are still to be determined by President Lula, but recognizing that public money cannot subsidize the entire plan, the MOC's NBP calls for a combination of tax cuts and government financing to encourage needed private investment. The NBP proposes to reduce social contribution tax rates on Brazil's social security tax (COFINS) and

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its social integration tax (PIS) for IT companies, and to reduce the tax on broadband related goods and services (ICMS). The plan recommends adding NBP-based businesses to the national micro or small business plan called "Simples Nacional." This would provide IT companies with tax benefits, streamline licensing and market entry challenges, qualify the companies for attractive lines of credit, and allow them to receive services from Brazil's National Microbusiness Support Agency (SEBRAE) including business plan development, tax consultation, training, and market research. The NBP proposes that BNDES offer attractive lines of credit to NBP-based companies for projects to expand broadband infrastructure for fixed and mobile services, for digital inclusion projects with broadband access aimed at rural areas, and for IT related training.

REGULATORY CHANGES

14. (SBU) The primary goal of NBP regulatory reform is to stimulate competition and reduce consumer prices by expanding licensing regimes and reducing entry barriers for new service providers. The NBP calls for an increase in the availability of new fixed and mobile concessions for cable TV with the goal of increasing by 25% the number of households with access to broadband internet via cable TV by 2014. Additionally, the plan establishes a special broadband spectrum division within Brazil's Telecommunications Regulatory Agency (ANATEL) for the auction of broadband licensed blocks in order to facilitate the participation of large, medium and small providers of telecommunications services in the process. The division's responsibilities would entail identifying a spectrum's coverage and scope (national, regional or local), establishing a maximum allowable pricing regime with the service provider, defining long term, extended coverage commitments within each spectrum auction, and capping the maximum allowable bid during spectrum auctions in order to foster greater participation. Spectrum in the 450Mhz, 2.5GHz and 3.5GHz bands for mobile

broadband will soon be released and the plan calls for the establishment of the broadband spectrum division before the auctions take place. ANATEL's Jeferson Nacif told Econoff that these goals were consistent with ANATEL's agency objectives of fostering greater competition, enhancing operational efficiencies, and lowering consumer prices through regulatory reform. In this sense, Nacif mentioned that ANATEL would be reviewing Brazil's compensation network regulations, IT infrastructure sharing regulations, and interconnectivity regulations to find asymmetries that create greater market access. Nacif added that ANATEL will also be giving priority to the regulations on network neutrality (elimination of tiered internet pricing regimes) and to ensuring that service providers are delivering the connection speed that consumers are paying for. (Note: many of these topics will be included on the agenda during the ANATEL/FCC workshop in February 2009 in Washington. End Note)

15. (SBU) Comment: As bold as the strategic thinking of MOC's NBP appears to be, it is still just an introductory proposal. Until GOB addresses the critical issues of how broadband is to be delivered (via landline telephone infrastructure or electricity grid infrastructure - either option would require expansion of existing networks) and how the government will fund expansion, strategic planning will not turn into tangible implementation. As in Brazil's energy and aviation sectors, Brazil's IT infrastructure has failed to keep pace with demand. There is no doubt that past underperformance in this sector has had a negative impact on potential GDP growth and economic competitiveness, as well as on Brazil's social inclusion goals, due to limited information access for Brazilians in rural areas with lower income. The GOB sees an opportunity to help bridge those gaps and, with Brazil hosting the World Cup in 2014 and the Olympics in 2016, realizes fundamental decisions on delivery mode and funding must be made soon. That said, Mission believes GOB is unlikely to meet its December deadline to make these decisions. End comment.
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